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SUBJECT: USDOC DAS FOR EUROPE VISITS ESTONIA

¶1. (SBU) Summary: GOE officials told Department of Commerce DAS for Europe Paul Dyck that Estonia is very open to more U.S. investment and noted that Estonia's business climate has not suffered from the cyber attacks of early May. They also expressed interest in the goals of the new Trans-Atlantic Economic Council. However, business leaders and GOE officials both cited difficulties caused by Estonia's labor shortage. Estonia's trade promotion agency reviewed its strategies for encouraging more investment, including interest in direct flights to the U.S. and persuading a major international bank branch to locate in Estonia. The Ministry of Economy said they are keeping all options open with regard to Estonian participation in nuclear energy projects in both Finland and Lithuania. End Summary.

¶2. (U) During a visit to Tallinn September 11-12, Commerce DAS Dyck met with Siim-Valmar Kiisler, Deputy Minister for Economic Affairs and Communication and Mart Laanemae, Undersecretary of the Ministry of Foreign Affairs for Economic and Development Affairs. He also met with Dr. Viljar Jaamu, Chairman of the state trade and investment agency, Enterprise Estonia (EAS). As the keynote speaker at an Amcham "Charter Gold" reception, Dyck addressed members of the business community on U.S. investment goals, and challenges facing employers in Estonia.

Investment, Labor Shortage, and Estonia's Economic Future

¶3. (U) DAS Dyck told all his interlocutors that the USG is interested in identifying new opportunities for U.S. businesses in Estonia and increasing the proportion of U.S. foreign direct investment. (Note: the U.S. is currently the 8th largest in FDI, at 2.1 percent. End Note.) The USG recognizes that Estonia is a transparent, investment-friendly location, with a simple, pro-business tax structure and a growing economy. However, he noted, the labor shortage in Estonia's workforce is a big concern for many firms. (Note: The registered unemployment rate is currently 1.5 percent, and several firms -- including a telephone call center for Hilton hotels -- have recently announced closure or downsizing due to their inability to find enough workers at competitive wages and flexible hours. End Note.) Kiisler from the Ministry of Economic Affairs (MOE), and Laanemae from the MFA, both admitted it would be hard to bring even a single new auto plant to Estonia now, given how much labor such a factory would require. "We've lost more jobs to China than we have here!" said Laanemae, only partly in jest. Also, he acknowledged that locating one car factory in Estonia would soak up so many jobs that other sectors of the economy could suffer. Nevertheless, both reiterated that Estonia

would be very open to any potential investors, and would treat U.S. firms with equal preference to Estonian ones.

¶4. (U) Dr. Viljar Jaamu, Chairman of the state trade-promotion agency Enterprise Estonia (EAS), told DAS Dyck that while Estonia wants to emphasize non-labor intensive sectors like IT and tourism, it does not want to become a one-dimensional economy "like Cyprus or Egypt." EAS still views attracting manufacturing to Estonia as a priority, but Jaamu admitted that it is unclear where the workers will come from. Politically unpopular proposals to facilitate permits for workers from outside the EU are currently stalled in the GOE cabinet. Jaamu listed bringing a major international bank like CitiBank to Tallinn and opening up direct flights to the U.S. as other priorities. To that end, he has urged the Tallinn airport authority to grant special concessions to any airline opening new routes in and out of Estonia. (Note: Jaamu said that 36,000 passengers per year fly from Estonia to the U.S., which is enough for two full flights per week. End note.) Jaamu had even more ideas about pressing Parliament for legislation to allow international ship registry in Estonia and to attract accounting, logistics and other service providers, but again, lack of labor is a bottleneck. Jaamu told DAS Dyck that the newly opened EAS office in San Jose, CA is focused on the IT sector, but is also trying to facilitate partnerships in Silicon Valley for Estonian firms. Shortly after meeting with DAS Dyck, Jaamu also led a delegation to London to talk with financial regulators about opening an alternative stock market in Tallinn for small-cap firms, like London's AIM.

¶5. (SBU) At the American Chamber of Commerce (AmCham) reception, senior managers at both the Radisson hotel and UPS voiced concerns about the service sector workforce.

TALLINN 00000621 002 OF 002

They have very low turnover at the mid- to upper-levels of management, but extremely high annual turnover (almost 90 percent) among drivers, housekeeping and restaurant staff. To meet next year's wage pressures (25 percent growth in 2006) in an environment of modest revenue growth, the Radisson plans to cut 5 percent of their workforce in order to give senior staff raises. According to the Radisson's General Manager, the hotel industry has been hurt in part by the fact that the convention tourism industry in Estonia has made little effort in recent years to seek out new business because it assumed that past growth would continue without additional encouragement.

Trans-Atlantic Cooperation and Life after Cyber Attacks

¶6. (SBU) MFA interlocutors asked for more information on the Trans Atlantic Economic Council created at the April U.S. - EU Summit. Laanemae said that "Estonia would be happy to have as special a relationship with the U.S. as possible." Both he and MOE's Kiisler noted that before EU accession, Estonians were very skeptical about what benefits membership would bring, but now they are very positive. DAS Dyck asked his counterparts what affect the April Bronze Soldier riots and subsequent cyber attacks have had on the business and investment climate in Estonia. Both Laanemae and Jaamu said they do not feel that the Cyber Attacks have scared off potential investors. Paul Elberg, MFA's Director of External Economic Policy and Development Cooperation, noted that previous disruptions in trade with Russia have resulted in Estonian firms re-orienting their business toward Western firms and investors. (Note: A couple of U.S. companies have told us privately that the riots and cyber attacks made them reconsider plans to invest or expand investment in Estonia. End Note.)

Ignalina Nuclear Power Plant

¶7. (SBU) Einari Kisel, Director of MOE's Energy Department,

told DAS Dyck that Estonia is keeping all its options open for energy cooperation in the region. Estonia has been in talks with Latvia, Lithuania and Poland for the past 18 months about collaboration on a replacement for the Ignalina Nuclear Power Plant (INPP). Recently, however, Minister of Economy Juhan Parts and Prime Minister Andrus Ansip have discussed Estonia's interest in a new Finnish nuclear power plant with the Government of Finland. Kisel commented that it is hard to think of any other example in the world of a national-level nuclear power project involving more than two partner countries, as the INPP does right now. Deputy Minister Kiisler welcomed the interest that U.S. companies such as GE and Westinghouse have shown in Ignalina, but added that most likely there would be no public tenders for the INPP until 2010 or beyond.

18. (U) DAS Dyck cleared on this cable.

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